

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Ernest *EJ* Johnson
Director
Utilities Division

THRU: Wilfred Shand, Jr.
Manager, Telecommunications & Energy Section
Utilities Division

Matthew Rowell
Chief, Telecommunications & Energy Section
Utilities Division

DATE: April 27, 2005

RE: IN THE MATTER OF THE APPLICATION OF PHONE1, INC. FOR A
CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE RESOLD
LONG DISTANCE AND ALTERNATIVE OPERATOR SERVICES
TELECOMMUNICATIONS SERVICE (DOCKET NO. T-04297A-04-0918)

Attached is the Staff Report for the above referenced application. The Applicant is applying for approval to provide the following services:

- Resold interexchange services
- Alternative operator services

/ajl

Originator: Adam Lebrecht

Attachment: Original and Sixteen Copies

Arizona Corporation Commission

DOCKETED

APR 27 2005

DOCKETED BY	<i>JS</i>
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AZ CORP COMMISSION
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SERVICE LIST FOR: PHONE1, INC.
DOCKET NOS. T-04297A-04-0918

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

PHONE1, INC.

DOCKET NO. T-04297A-04-0918

IN THE MATTER OF THE APPLICATION OF PHONE1, INC. FOR A CERTIFICATE OF
CONVENIENCE AND NECESSITY TO PROVIDE RESOLD LONG DISTANCE AND
ALTERNATIVE OPERATOR SERVICES TELECOMMUNICATIONS SERVICE

APRIL 2005

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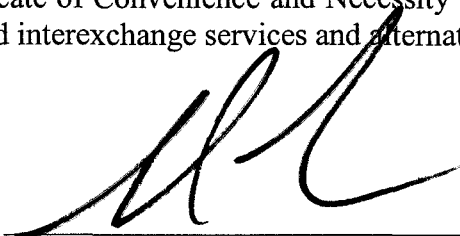
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MAXIMUM INTERLATA USAGE AND SERVICES CHARGES	SCHEDULE 1
MAXIMUM INTRALATA USAGE AND SERVICES CHARGES	SCHEDULE 2

STAFF ACKNOWLEDGMENT

The Staff Report for Phone1, Inc., Docket No. T-04297A-04-0918, was the responsibility of the Staff member listed below. Adam Lebrecht was responsible for the review and analysis of the application to obtain a Certificate of Convenience and Necessity to provide telecommunications services as a provider of resold interexchange services and alternative operator services.

A handwritten signature in black ink, appearing to be 'AL', is written over a horizontal line.

Adam Lebrecht
Executive Consultant I

1. INTRODUCTION

On December 21, 2004, Phone1, Inc. (the "Applicant" or "Phone1") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide telecommunications services as a provider of resold interexchange services and Alternative Operator Services ("AOS") within the State of Arizona.

Staff's review of this application addresses the geographic market to be served by the Applicant and overall fitness of the Applicant to receive a CC&N to provide competitive resold intrastate interexchange services and AOS telecommunications services. Staff's review considers the Applicant's technical and financial capabilities, and whether the Applicant's proposed rates and charges will be competitive, just, and reasonable.

2. APPLICATION FOR A CERTIFICATE OF CONVENIENCE & NECESSITY

The necessary information has been filed to process this application, and the Applicant has authority to transact business in the State of Arizona. The Applicant has published legal notice of the application in all counties where service will be provided. On February 3, 2005, the Applicant filed an Affidavit of Publication from the Arizona Republic that complies with the Commission's notice requirements.

2.1 DESCRIPTION OF THE GEOGRAPHIC MARKET TO BE SERVED AND REQUESTED SERVICES

Phone1 seeks authority to provide resold interexchange telecommunications services throughout the State of Arizona. The Applicant also seeks authority to provide AOS throughout the State of Arizona.

2.2 TECHNICAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant indicated that it is currently providing resold interexchange and/or AOS telecommunications services in the District of Columbia and in 27 states, excluding Arizona (See "Attachement A"). The Applicant also indicated that it is a switchless reseller.

Based on this information, Staff has determined that the Applicant has sufficient technical capabilities to provide resold interexchange and AOS telecommunications services.

2.2.1 FINANCIAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant did provide audited financial statements of its parent company,

Phone1Globalwide, Inc. and its subsidiaries, for the 12 months ending March 31, 2004. These financial statements list assets of \$14,726,549; equity of \$10,806,257; and a net loss of \$16,590,231. The Applicant did provide notes related to the financial statements.

The Applicant stated in its Tariff, Sections 2.5 and 2.6 on page 17, that it does not collect advances, deposits and/or prepayments from its customers. If at some future date, the Applicant wants to collect advances, deposits and/or prepayments, Staff recommends that the Applicant be required to file an application with the Arizona Corporation Commission ("Commission") for approval. Such application must reference the decision in this docket and must explain the Applicant's plans for procuring a performance bond.

If the Applicant experiences financial difficulty, there should be minimal impact to the customers of this Applicant because there are many other companies that provide resold telecommunications service or the customers may choose a facilities-based provider. If the customer wants service from a different provider immediately, that customer is able to dial a 101XXXX access code. In the longer term, the customer may permanently switch to another company.

3. REVIEW OF PROPOSED TARIFF AND FAIR VALUE DETERMINATION

The Applicant has filed a proposed tariff with the Commission. Also, the Applicant has filed sufficient information with the Commission to make a fair value determination.

The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the Company and has determined that its fair value rate base is zero. Accordingly, the Applicant's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to the rates of several resold interexchange and AOS providers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by the Company, it did not accord that information substantial weight in its analysis.

3.1 COMPETITIVE SERVICES

The Applicant is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. The Applicant cannot adversely affect the intrastate interexchange market by restricting output or raising market prices. In addition, the entities from which the Applicant buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that the Applicant has no market power and that the reasonableness of its rates will be evaluated in a

market with numerous competitors. In light of the competitive market in which the Applicant will be providing its services, Staff believes that the Applicant's proposed tariffs for its competitive services will be just and reasonable.

3.2 EFFECTIVE RATES

The Commission provides pricing flexibility by allowing competitive telecommunications service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with Arizona Administrative Code ("AAC") R14-2-1109. The Commission's rules require the Applicant to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service. In the event that the Applicant states only one rate in its tariff for a competitive service, Staff recommends that the rate stated be the effective (actual) price to be charged for the service as well as the service's maximum rate. Any changes to the Applicant's effective price for a service must comply with AAC R14-2-1109.

3.3 MINIMUM AND MAXIMUM RATES

AAC R14-2-1109 (A) provides that minimum rates for the Applicant's competitive services must not be below the Applicant's total service long run incremental costs of providing the services. The Applicant's maximum rates should be the maximum rates proposed by the Applicant in its most recent tariffs on file with the Commission. Any future changes to the maximum rates in the Applicant's tariffs must comply with AAC R14-2-1110.

4. ALTERNATIVE OPERATOR SERVICES

This Section of the Staff Report concerns the Applicant's request for a CC&N to provide AOS telecommunications services in Arizona.

4.1 INTRODUCTION

AOS is a service industry that provides resold telecommunications and operator services to large distinct customers, such as hotels, motels, health care and correctional facilities. The AOS provider will contract with the hotel or correctional facility to provide services. The hotel or correctional facility is referred to as an "aggregator." The patrons of the "aggregator" are referred to as "end-users." AOS services are provided by routing all calls originating from the aggregator premise to the AOS provider, which then handles the call to meet the needs of the end-user.

"End-users" have no control over the aggregator's subscription for long distance service,

and as such are essentially captive customers for telecommunications services. The Commission has previously determined that it is in the public interest to ensure that an end user using the telecommunications services of an AOS provider be charged rates consistent with the corresponding rates and service charges of certified facilities-based toll carriers available to the calling public.

Staff has reviewed the authorized rates and service charges applicable to AOS providers. Staff reviewed the rates of AT&T Communications of the Mountain States, Inc. ("AT&T"), MCI Telecommunications Corporation, ("MCI"), Sprint Communications Company, (Sprint), Allnet Communications Services, Inc., ("Allnet"), and Qwest Corporation ("Qwest"). Staff then developed the attached Schedule 1 and 2, establishing maximum rates for the AOS services. These maximum rates coupled with discounting authority provide the market participants with the ability to compete on price and service quality. The Commission adopted these maximum rates in Decision No. 61274.

4.2 RATE REVIEW PROCESS

Staff has reviewed the rates of five major toll carriers to establish the maximum AOS rates, service charges and operator-dialed surcharges set forth on Schedules 1 and 2. If any of the carriers forming the rate group obtain higher rates, the Applicant should be authorized to allow its rates to float in accordance with the carriers revised higher rates so long as the AOS provider complies with the following tariff filing requirements. The Applicant is required to file: 1) an estimate of the value of its plant to serve Arizona customers; 2) a tariff setting forth the new maximum rates, which do not exceed the maximum rates of the five major carriers set; and 3) all information required by AAC R14-2-1110.

For example, AT&T currently has maximum rates in the night/weekend rate period in mileage bands 0 through 292 for the first minute and additional minutes in Schedule 1. In the event AT&T was to increase its rates in these mileage bands, the rates changed would establish new maximum rates in Schedule 1. Pursuant to Staff's recommendation, the Applicant would be allowed to seek authorization to increase its maximum rates and/or service charges accordingly by complying with the filing requirements described above.

4.3 DISCOUNTING AUTHORITY

Staff recommends that the Applicant should be allowed to discount its rates and service charges to the marginal cost of providing the services. Discount authority will provide the company with pricing flexibility to compete with other providers, as well as allow the potential benefits of price competition to accrue to end-users.

4.4 INTERLATA TOLL CHARGES – AOS

Staff recommends interLATA rates and service charges to be based on the maximum rates and service charges authorized for certain interexchange carriers ("IXCs") certificated in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the facilities-based IXC's as set forth in Schedule 1. In addition, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based IXC's as set forth in Schedule 1.

4.5 INTRALATA TOLL CHARGES – AOS

Staff recommends IntraLATA rates and service charges to be based on the maximum rates and service charges of the various facilities-based carriers certified to carry intraLATA toll calls in Arizona as described above.

Staff recommends that the Commission authorize the Applicant to charge the maximum rate in each mileage band, respective of the day of the week and time of the day, currently authorized for any of the various facilities-based intraLATA carriers set forth in Schedule 2. Furthermore, Staff recommends that the Commission limit the Company's service charges to the highest authorized maximum service charge of any of the facilities-based intraLATA carriers set forth in Schedule 2.

The attached Schedule 1 and 2 set forth Staff's recommended surcharges for interLATA and intraLATA toll calls respectively.

4.6 OPERATOR-DIALED SURCHARGE AND PROPERTY SURCHARGE

An operator-dialed surcharge is imposed when an end user has the capability to dial the call, but requests the operator to dial and make the call. A property surcharge is a per call bonus paid to the aggregator by the AOS provider. In prior decisions, the Commission has approved both an operator-dialed surcharge and a property (location-specific or subscriber) surcharge.

Staff recommends that the property surcharge be limited to \$1.00 per call. The Commission has approved a property surcharge of \$1.00 for the majority of AOS carriers certified in Arizona. Limiting the property surcharge provides a level playing field for the competitors. Staff recommends consistency in the property surcharge to stress the importance of providing service to the end-users, rather than higher payments to aggregators for the opportunity to serve end-users.

Staff recommends approval of the operator-dialed surcharge and the property surcharge as described in Schedule 1 and 2.

4.7 ZERO MINUS CALLS

The term "zero-minus" are operator assisted calls. The caller dials zero and waits for the operator to pick up the line and talk to the operator. The Commission adopted AAC R14-2-1006.A, which requires the AOS provider to route all zero-minus calls to the originating LEC. The Commission also provided a waiver from the requirement upon a showing that the AOS provider could provide the caller with equally quick and reliable service. Phone1 has not requested such a waiver.

4.8 PROPOSED AOS TARIFF

Phone1's tariff filing of December 21, 2004 does agree with the recommendations in the above sections. The Applicant's proposed rates and service charges for either interLATA or intraLATA telephone services are identical to or less than the rates and service charges contained in Staff's attached rate Schedule 1 and 2. Therefore, Staff believes the Applicant's proposed tariffs are reasonable and should be approved at this time.

5. RECOMMENDATIONS

The following sections contain Staff's recommendations on Phone1's application to obtain a CC&N to provide resold interexchange services and AOS telecommunications services.

5.1 STAFF'S RECOMMENDATIONS

Staff believes that the Applicant is a fit and proper entity to be granted a CC&N to provide resold interexchange services and AOS services, as listed in Section 2.2 of this Report.

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;
3. The Applicant should be ordered to file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;

4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
7. That the Applicant agree to abide by and participate in the AUSF mechanism instituted in Decision No. 59623, dated April 24, 1996 (Docket No. RT-00000E-95-0498);
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's name, address or telephone number;
9. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to AAC R14-2-1108;
10. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive services should be the Applicant's total service long run incremental costs of providing those services as set forth in AAC R14-2-1109;
11. In the event that the Applicant states only one rate in its proposed tariff for a competitive service, the rate stated should be the effective (actual) price to be charged for the service as well as the service's maximum rate;
12. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the Applicant's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to the rates of several resold interexchange and AOS providers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by the company, Staff recommends that the fair value information provided not be given substantial weight in this analysis;
13. Staff further recommends that the Commission authorize the Applicant to discount its rates and service charges to the marginal cost of providing the services;
14. The Applicant's interLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 1;

15. The Applicant's intraLATA rates and service charges for AOS services should be based on the maximum rates and service charges as set forth in Schedule 2;
16. The Applicant's property surcharge for AOS services be limited to \$1.00 per call;
17. If at some future date, the Applicant wants to collect advances, deposits and/or prepayments from its resold interexchange customers, Staff recommends that the Applicant be required to file an application with the Arizona Corporation Commission ("Commission") for approval. Such application must reference the decision in this docket and must explain the applicant's plans for procuring a performance bond.
18. In the event the Applicant requests to discontinue and/or abandon its service area it must provide notice to both the Commission and its customers. Such notice(s) shall be in accordance with AAC R14-2-1107.

Staff further recommends that the Applicant be ordered to comply with the following. If it does not do so, the Applicant's CC&N shall be null and void without further order of the Commission and no time extensions shall be granted:

1. The Applicant file conforming tariffs, with the Commission's Docket Control Office, within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first.

This application may be approved without a hearing pursuant to A.R.S. § 40-282.

Attachment A

Phone1 indicated that it is currently providing resold interexchange and AOS services in the District of Columbia and following states:

1. Arkansas
2. California
3. Colorado
4. Florida
5. Georgia
6. Idaho
7. Indiana
8. Iowa
9. Kentucky
10. Maine
11. Massachusetts
12. Missouri
13. Montana
14. Nebraska
15. Nevada
16. New Hampshire
17. New Jersey
18. New York
19. North Carolina
20. Ohio
21. Oregon
22. Texas
23. Utah
24. Vermont
25. Virginia
26. Wisconsin
27. Wyoming

Schedule 1

Alternative Operator Services Maximum InterLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.5065	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.5307	0.3332	0.3135	0.3000	0.3000	0.3000
56-70	0.5560	0.3732	0.3590	0.3000	0.3000	0.3000
71-124	0.5560	0.3865	0.3590	0.3000	0.3000	0.3000
125-196	0.5560	0.4265	0.3590	0.3000	0.3000	0.3000
197-292	0.5560	0.4799	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.4820	0.3908	0.3000	0.3000	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services Maximum InterLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station – to – Station Collect	\$2.33
Person – to – Person Collect	\$4.66
Third Party Person – to – Person	\$4.66
Third Party Station – to Station	\$2.33
Person – to – Person	\$4.50
Station – to – Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to an end user who has the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
Docket No. _____
Decision No. _____

Schedule 2

Alternative Operator Services Maximum IntraLata Usage Charges

Mileage Band	Day Time (a)		Evening/Holiday (b)		Night/Weekend (c)	
	First Minute	Addtl. Minute	First Minute	Addtl. Minute	First Minute	Addtl. Minute
0-10	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000
11-16	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
17-22	0.4000	0.3000	0.3000	0.3000	0.3000	0.3000
23-30	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
31-40	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
41-55	0.4500	0.3000	0.3135	0.3000	0.3000	0.3000
56-70	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
71-124	0.5200	0.3300	0.3590	0.3000	0.3000	0.3000
125-196	0.5300	0.3600	0.3590	0.3000	0.3000	0.3000
197-292	0.5800	0.3600	0.3590	0.3000	0.3000	0.3000
293 & Over	0.5800	0.3800	0.3980	0.3000	0.3300	0.3000

Rate Periods

- (a) Day time is Monday through Friday 8:00 a.m. to 5 p.m.
- (b) Evening/Holiday is Sunday through Friday 5:00 p.m. to 11:00 p.m.
Officially recognized holidays are: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas Day. Evening rates are applicable during all holiday hours, except for hours when a lower rate (i.e. Night/Weekend) is applicable.
- (c) Night/Weekend is Sunday through Thursday 11:00 p.m. to 8:00 a.m., 11:00 p.m. Friday through 5:00 p.m. Sunday.

Alternative Operator Services Maximum IntraLata Services Charges

Service (1) (2)	Maximum Charge
Customer Dialed Calling or Credit Card	\$1.50
Operator Dialed Calling or Credit Card	\$2.50
Station – to – Station Collect	\$2.30
Person – to – Person Collect	\$4.50
Third Party Person – to – Person	\$4.50
Third Party Station – to Station	\$2.30
Person—to – Person	\$4.50
Station – to – Station	\$3.50
Directory Assistance	\$2.00

- (1) An Operator Dialed Surcharge of \$2.00 will be applied to the capability to call, but requests the operator to do so instead. In accordance with A.A.C. R14-2-1005, end users shall be informed of this charge before call completion. This surcharge will not be imposed in cases of equipment failure or where the end user is experiencing a disability.
- (2) A Property Surcharge, Subscriber Surcharge or Location Specific Charge may be added to all operator assisted calls completed from Company subscriber locations. This surcharge will appear on the customer's bill and will be capped at \$1.00 per call; all of this surcharge will be remitted to the aggregator; however, this surcharge will not be collected by the Company if the aggregator is also collecting a surcharge.

Company _____
Docket No. _____
Decision No. _____

We have audited the accompanying consolidated balance sheets of Phone1 Globalwide, Inc. and Subsidiaries ("the Company"), as of March 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phone1 Globalwide, Inc. and Subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note F to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard 142, "Goodwill and Other Intangible Assets" on April 1, 2002.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has experienced a net loss of \$16,590,231 for the year ended March 31, 2004. Additionally, the Company's current liabilities exceeded its current assets by \$1,311,532 at March 31, 2004 and the Company used cash of \$10,110,399 in its operations for the year ended March 31, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans about these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Grant Thornton, LLP

Miami, Florida

May 27, 2004

F-2

Phone1 Globalwide Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	2004	March 31, 2003
ASSETS		
Current assets		
Cash	\$ 389,066	\$ 1,205,284

Accounts receivable, less allowance for doubtful
accounts of \$293,801 and \$236,253 at March 31,
2004 and 2003, respectively

Note receivable

Prepaid expenses and other current assets

Total current assets

Property and equipment, net

Deposits and other

Intangible Assets

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities

Accounts payable

Convertible loan payable to bank - GNB Bank

Net of \$0- and \$1,181,531 discount in March 2004 and 2003, respectively)

Accrued expenses and other current liabilities

Total current liabilities

Stockholders' equity

Series A 8% Convertible Preferred stock, par value of \$.001, 10,000,000 shares authorized; -0-

and 9,000,000 issued as of March 31, 2004 and March 31, 2003, respectively

Common stock, par value of \$.001, 200,000,000 shares

authorized; 141,206,995 and 66,128,702 shares issued

and outstanding as of March 31, 2004 and

March 31, 2003, respectively

Additional paid-in capital

Accumulated deficit

Total stockholders' equity (deficit)

Total liabilities and stockholders' equity

993,948	863,170
647,839	-
577,907	885,093
2,608,760	2,953,547
9,658,638	7,188,972
1,130,592	1,304,244
1,328,559	1,328,559
\$ 14,726,549	\$ 12,775,322

\$ 1,428,838	\$ 1,688,167
-	18,818,469
2,491,454	1,929,123
\$ 3,920,292	\$ 22,435,759

-	9,000
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141,207	66,128
133,019,846	96,029,000
(122,354,796) (105,764,565)
10,806,257	(9,660,437)
\$ 14,726,549	\$ 12,775,322

The accompanying notes are an integral part of these statements.

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Phone1Globalwide Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended March 31,

	2004	2003
Net Revenue	\$ 14,150,177	\$ 6,303,193
Expenses		
Cost of sales	12,819,821	7,275,856
General and administrative	8,676,847	6,704,957
Marketing and promotions	2,029,825	2,415,755
Depreciation	4,523,897	2,851,958
Intangible asset amortization	-	9,086,275
Impairment of intangible assets	-	10,959,341
Impairment of long lived assets	-	539,270
Settlement of service agreements and claims	328,133	236,500
Operating loss	\$ (14,228,346	) \$ (33,766,719)
Other income (expense)		
Interest expense, net	(2,361,885	) (3,242,926)
Other income	-	173,450

Loss before provision for income tax	\$ (16,590,231	) \$ (36,836,195)
Income tax benefit	-	-	
Net Loss	\$ (16,590,231	) \$ (36,836,195)
Basic earnings (loss) per common share	(0.15	) (0.79)
Diluted earnings (loss) per common share	(0.15	) (0.79)
Weighted average shares of common stock outstanding:			
Basic	108,049,911	48,075,551	
Diluted	108,049,911	48,075,551	

The accompanying notes are an integral part of these statements.

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Phone1Globalwide Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended March 31, 2004 and 2003

	Shares of Preferred Stock	Series A 8% Convertible Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at March 31, 2002	9,000,000	\$ 9,000	41,078,702	\$ 41,078	\$ 83,141,611	\$ (68,928,370	) \$ 14,263,319
Issuance of common stock for conversion of debt	-	-	25,000,000	25,000	9,975,000	-	10,000,000
Issuance of common stock to settle service agreement	-	-	50,000	50	6,450	-	6,500
Issuance of common stock options to consultant	-	-	-	-	30,939	-	30,939
Discount on convertible debt	-	-	-	-	2,875,000	-	2,875,000
Net loss	-	-	-	-	-	(36,836,195	) (36,836,195
Balance at March 31, 2003	9,000,000	\$ 9,000	66,128,702	\$ 66,128	\$ 96,029,000	\$ (105,764,565	) \$ (9,660,437
Conversion of preferred stock to common stock	(9,000,000	) (9,000	) 13,953,489	13,954	(4,954)	-
Compensation for professional services received from board member	-	-	-	-	45,000	-	45,000
Issuance of common stock for conversion of debt	-	-	50,000,000	50,000	19,950,000	-	20,000,000
Issuance of common stock	-	-	11,061,947	11,062	12,488,938	-	12,500,000
Issuance of common stock for loss on settlement	-	-	17,857	18	24,982	-	25,000
Issuance of common stock to settle service agreement	-	-	45,000	45	53,505	-	53,550
Settlement of loan overdraft Note H	-	-	-	-	4,433,375	-	4,433,375
Net loss	-	-	-	-	-	(16,590,231	) (16,590,231
Balance at March 31, 2004	-	-	141,206,995	\$ 141,207	\$ 133,019,846	\$ (122,354,796) \$ 10,806,257

The accompanying notes are an integral part of this statement.

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